

Message Text

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PAGE 01 OECD P 06213 131740 Z

43

ACTION EUR-25

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TAGS: ECON OECD SP

SUBJECT: EDRC REVIEW OF SPAIN

REF: (A) EDR (73)3; (B) STATE 31276; (C) OECD 3748; (D) MADRID 877;
(E) OECD 4120

1. SUMMARY. SPANISH REPS COMMENDED DRAFT ANNUAL OECD ECONOMIC SURVEY OF THEIR ECONOMY. THEY FORECAST 7 PERCENT GROWTH IN 1973 (OVER 1972) AS AGAINST SECRETARIAT' S 6-1/2 PERCENT, AND FELT ADDITIONAL STIMULUS THEREFORE NOT NECESSARY. THEY ALSO FORECAST LOWER CURRENT ACCOUNT SURPLUS IN 1973 THAN SECRETARIAT. THEY ACCEPTED IDEA OF PUSHING FOR HIGHER THAN 7 PERCENT GROWTH OVER LONGER TERM, BUT FELT THAT STRUCTURAL CHANGES WERE IMPORTANT PRE-REQUISITES BEFORE THIS COULD BE SUCCESSFULLY REALIZED. U. S. REP SUPPORTED SECRETARIAT THEME ABOUT SPANISH BALANCE-OF - PAYMENTS SITUATION AND ACKNOWLEDGED APPROPRIATENESS OF SPANISH DECISION TO MAINTAIN PESETA- GOLD PARITY.
END SUMMARY.

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PAGE 02 OECD P 06213 131740 Z

2. BOTH SPANISH AMBASSADOR TO OECD AND HEAD OF SPANISH DELEGATION FROM MADRID, FERNANDEZ ORDONEZ (FINANCE), PRAISED DRAFT ANNULA OECD ECONOMIC SURVEY OF SPAIN (REF A) AS " ONE OF THE BEST EVER". THEY DISAGREED SLIGHTLY, HOWEVER, WITH ITS VIEW OF SHORT- TERM ECONOMIC PROSPECTS AND POLICY PRESCRIPTION TO APPLY ADDITIONAL STIMULUS. THEY COULD NOT ACCEPT THESIS THAT GROWTH RATE SHOULD BE PUSHED UP ABOVE 7 PERCENT IN THE NEAR TERM, BUT ACCEPTED THIS AS GOOD OBJECTIVE FOR LONGER TERM PROVIDING STRUCTURAL CHANGES WERE FIRST IMPLEMENTED. ON QUESTION OF IMPORT LIBERALIZATION, THEY REFERRED TO MEASURES TAKEN LATE 1972 AND TO SPANISH COOPERATION IN MAINTAINING PESETA- GOLD PARITY DURING TWO RECENT DOLLAR DEVALUATIONS AND EXPECTED THIS, ALONG WITH STEADY DOMESTIC GROWTH, TO REDUCE CURRENT ACCOUNT SURPLUS IN 1973 BELOW SECRETARIAT'S ESTIMATE. THEY ALSO REFERRED TO FURTHER LIBERALIZATION MEASURES UNDER CONSIDERATION BUT DELAYED IN IMPLEMENTATION BECAUSE OF MONETARY CRISIS.

3. BASED ON MOST RECENT ECONOMIC INDICATORS (NOTABLY INDUSTRIAL PRODUCTION INDEX) SPANISH FELT ECONOMY WAS GROWING FASTER NOW THAN SECRETARIAT COULD HAVE REALIZED WHEN WRITING FIRST DRAFT OF ECONOMIC SURVEY. THEY ALSO SAW NO REASON TO BELIEVE GROWTH IN 1973 WOULD BE LESS THAN 7 PERCENT (SECRETARIAT FORECAST 6-1/2). SPANISH HAD SLIGHTLY HIGHER ESTIMATES THAN SECRETARIAT FOR INCREASE OF PRIVATE CONSUMPTION AND FIXED INVESTMENT. THEY CONCLUDED FROM THIS THAT ADDITIONAL POLICY STIMULUS TO INCREASE DEMAND NOT LIKELY BE NECESSARY IN LATTER 1973 AS SUGGESTED BY DRAFT SURVEY.

4. ON BALANCE OF PAYMENTS, SPANISH PUT CURRENT ACCOUNT SURPLUS IN 1972 AT \$645 MILLION VERSUS SECRETARIAT'S \$800 MILLION. IN 1973, THEY FORECAST CURRENT SURPLUS OF \$485 MILLION VERSUS SECRETARIAT'S \$800 MILLION. SPANISH EXPLAINED FOR 1973 DIFFERENCE DUE: (A) DIFFERENT STARTING POINTS, (B) SLIGHTLY FASTER INCREASE IN DOMESTIC DEMAND, AND (C) EFFECTS OF DECISION TO MAINTAIN PESETA- GOLD PARITY. LATTER MEASURES THEY FELT RESULTED IN 4 PERCENT EFFECTIVE REVALUATION OF PESETA VIS- A- VIS OECD TRADING PARTNERS. THEY WERE ESPECIALLY CONCERNED ABOUT PROSPECT OF SLOWER GROWTH OF THEIR SHARE OF DOLLAR- AREA EXPORT MARKETS AND BY POSSIBLE SHIFT OF TOURISM LIMITED OFFICIAL USE

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PAGE 03 OECD P 06213 131740 Z

TO OTHER COUNTRIES. (THEY ESTIMATED EFFECTIVE REVALUATION

FOR TOURISM AT 5 PERCENT.) THEY FELT RECENT MEASURES
TO LIBERALIZE CAPITAL OUTFLOW WOULD ACT OVER TIME TO
REDUCE SIZE OF NET SURPLUS ON LONG- TERM CAPITAL ACCOUNT
AND THUS BRING DOWN THE SURPLUS ON BASIC BALANCE.

5. U. S. REP FOLLOWED INSTRUCTIONS IN REF (B) BY SUPPORTING
SECRETARIAT THESIS THAT SPANISH BALANCE- OF- PAYMENTS
SITUATION CALLS FOR MAJOR IMPORT LIBERALIZATION SO AS
TO PERMIT FASTER GROWTH WITHOUT INFLATION. HE ALSO
EXPRESSED APPRECIATION FOR APPROPRIATENESS OF SPANISH
DECISION, IN THIS CONTEXT, TO MAINTAIN PESETA- GOLD
PARITY.

DECON 3/13/74.
BROWN

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